

Arbor Capital Resources Inc.

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FORMERLY CANADIAN MEMORIAL SERVICES LTD

annual
report
1980



Directors' report to shareholders

FINANCIAL SUMMARY

NET EARNINGS

Arbor's net earnings for 1980 of \$998,000 (47 cents per share) were some 25% ahead of the previous year. The statement of earnings accompanying this report shows that the result for 1980 reflects the combined effects of:

- An increase of 20% in sales and investment income;
- An increase of 17% in operating costs; this is equivalent to an improvement in operating margin (expressed as a percentage of income) from 9.0% in 1979 to 11.4% in 1980;
- An increase of \$302,000 in net losses on the sale of investments. This item is attributable largely to the sale of long term bonds in the autumn of 1980 consequent upon our decision to shorten the average term of fixed interest securities held by or for Arbor;
- An increase in the effective rate of income tax from 48% to 51% pursuant to changes in federal legislation.

The growth in earnings for 1980 justifies some satisfaction but a truer appraisal of your company's performance must take into account also changes in the resources committed to generate those earnings. For Arbor, the ratio of earnings to total assets (including care fund capital) rose from 1.6% in 1979 to 1.8% in 1980. Though still far below the levels achieved by leading enterprises, or called for by our own long term goals, your directors are encouraged by the trend in this key indicator.

FINANCIAL POSITION

During 1980 the maximum term for payment of customers' accounts was reduced from five years to four years. This change, coupled with increased sales and prompter payment by customers in all regions, increased cash provided from operations above anticipated levels.

Your company's improved cash position satisfied all operating and capital requirements for the year as well as payment of a dividend and a reduction in aggregate borrowings of some \$1.4 million.

DIVIDEND

An annual dividend at the rate of 10 cents per share will be paid on January 15, 1981, to shareholders of record on December 31, 1980.

LEADING EVENTS

LAND

One new cemetery was opened in 1980. This property, Glen Oaks Memorial Gardens, is in the Oakville/Mississauga region of Ontario and brings to thirty-seven the total number of our cemeteries.

Excepting Halifax, your company now serves all 15 Census metropolitan areas in Canada with a population of 200,000 or more. Consistent with our goal of providing service to all major Canadian communities, arrangements have been made to acquire suitable land near Halifax and, subject to final regulatory approvals, it is hoped to open a cemetery at this site in 1981.

CREMATORIA

With the installation during the year of a unit at each of Winnipeg and Victoria, your company is now operating nine crematoria. At this time two more crematoria, one in Toronto and one in Montreal, are close to completion.

HEAD OFFICE BUILDING

Shortly after the end of the fiscal year, a modern 45,000 square foot office building at 2 Jane Street, Toronto, was acquired by Arbor Jane Property Ltd., a subsidiary of your company. It is intended that Arbor's head office operations, which require approximately 12,000 square feet, will be moved into this building in March 1981. Your directors expect that this acquisition will prove to be both an attractive investment and a reliable protection against rapidly escalating rental costs.

INVESTMENT IN MINING VENTURE

In the 1975 fiscal year, provision was made for the loss of \$493,415 which Arbor had advanced to assist in putting into production the Chibex gold mine at Chibougamau, Quebec. After lengthy negotiations, your company agreed to sell the debentures representing its interest in the Chibex property for 67,650 shares of Meston

Lake Resources Inc. - a Quebec corporation listed on the Vancouver Stock Exchange which now owns the Chibex property. Our shares of Meston Lake Resources Inc. are to be held in escrow pending implementation of a work program under which James Bay Development Corporation has undertaken to spend not less than \$9 million on putting the Chibex mine into production. The quoted market value of the common stock of Meston Lake Resources Inc. is now of the order of \$7.50 per share.

FUNERAL SERVICES

Both the convenience of the public and operating efficiency are enhanced when funeral and cemetery services are performed in close proximity. These reasons have justified the establishment of funeral homes on, or adjoining, cemetery lands in many parts of the United States as well as in Canada. A variety of ownership arrangements has been employed. Thus, the funeral home may be owned by its operator or by the cemetery and it may be established on land leased or bought from the cemetery or from an adjoining owner. The last few years have seen a marked growth in the public acceptance of such projects. In the view of your directors, the trend toward a closer physical association of funeral homes and cemeteries is appropriate and sufficiently established that it must exert a powerful influence on the long term planning of all cemeteries. Consistent with this position, your company has approved in principle several proposals to establish funeral homes on its lands. The first such project, in Edmonton, is close to completion and others are the subject of current negotiations.

OUTLOOK

Considering the experience of recent years, and bearing in mind the potential impact of newer branches and crematoria which had little effect on results in 1980, it is expected that sales in 1981 will increase at about the rate achieved in 1980.

Operating margins should be maintainable assuming that regulatory authorities allow selling prices to be adjusted promptly and sufficiently to match changes in costs. This assumption is reasonable given the heightened

and growing concern to remedy long standing problems of the cemetery sector which is being demonstrated by most senior regulatory personnel.

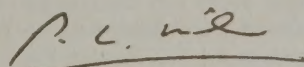
Two items of a non-recurring nature will tend to increase costs in the short term. First, are the expenses associated with renovating, maintaining and moving to the new head office building. Secondly, are the costs of continuing the program for shortening the average term of investments held by or for your company. It is impossible to predict closely the net result of these two items. The first will be affected by the degree of success achieved in leasing vacant space and the second will be influenced as to timing by conditions in financial markets and as to magnitude by any capital gains that may be recovered. However, your directors do not foresee circumstances under which these two items would cause a marked reduction in earnings.

Your company's plans provide in the next four years for the acquisition of additional land for cemetery use at some seven important locations in western Canada and Ontario as well as the construction of approximately six more crematoria. The timing of these projects is largely beyond our control but it is probable that sufficient of them will be concluded to maintain capital expenditures in 1981 at not less than the level experienced in 1980.

ACKNOWLEDGEMENTS

Your directors record sincere thanks to the many women and men who contributed to Arbor's progress in 1981. We acknowledge, in particular, those who responded most willingly to the demands which were added to their regular responsibilities by our ambitious expansion program.

On behalf of the Board



Philip L. Wilson,
President

Toronto, Ontario
January 12, 1981

Consolidated statement of earnings and retained earnings

	Year ended October 31	
	1980	1979
	(\$000)	
SALES	\$18,054	\$14,884
INVESTMENT INCOME		
Pre-need funds	996	991
Care funds (note 9)	1,362	1,103
	20,412	16,978
OPERATING COSTS AND OTHER EXPENSES	18,079	15,442
	2,333	1,536
NET LOSS ON INVESTMENTS	306	4
	2,027	1,532
PROVISION FOR INCOME TAXES		
Current	44	11
Deferred	985	724
	1,029	735
NET EARNINGS FOR THE YEAR	\$ 998	\$ 797
RETAINED EARNINGS - BEGINNING OF YEAR	\$ 5,604	\$ 4,807
DIVIDEND	211	—
RETAINED EARNINGS - END OF YEAR	\$ 6,391	\$ 5,604
	(cents per share)	
EARNINGS PER SHARE:	47¢	38¢

Auditors' report to the shareholders

We have examined the consolidated balance sheet of Arbor Capital Resources Inc. as at October 31, 1980 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1980 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
January 12, 1981

Cresper & Lybrand
Chartered Accountants

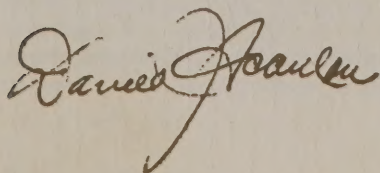
Consolidated statement of changes in financial position

	Year ended October 31	
	1980	1979
	(\$000)	
SOURCE OF CASH		
Net earnings for the year	\$ 998	\$ 797
Items not affecting funds		
Depreciation and amortization	385	360
Increase in provision for future delivery	2,903	1,998
Deferred income taxes	985	724
Cost of cemetery lots sold	205	172
Provided from operations	5,476	4,051
Increase in accounts payable and accrued liabilities	205	—
Increase in deferred revenue	164	200
Other	78	—
Increase in bank indebtedness	—	779
Increase in long-term debt	—	326
Increase in care funds	—	90
Proceeds on disposal of fixed assets	—	25
	5,923	5,471
USE OF CASH		
Increase in instalment accounts receivable	1,963	1,796
Decrease in bank indebtedness	1,226	—
Purchase of fixed assets	757	1,010
Increase in pre-need funds and merchandise	705	1,165
Increase in inventory of crypts and merchandise	512	327
Additions to cemetery land	300	447
Dividend	211	—
Decrease in long-term debt	157	—
Decrease in care funds	73	—
Decrease in accounts payable and accrued liabilities	—	488
Other	—	104
	5,904	5,337
INCREASE IN CASH	19	134
CASH — BEGINNING OF YEAR	177	43
CASH — END OF YEAR	\$ 196	\$ 177

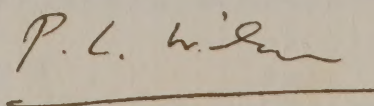
Consolidated balance sheet

	As at October 31	
	1980	1979
	(\$000)	
ASSETS		
Cash	\$ 196	\$ 177
Accounts receivable (notes 3 and 8)	503	723
Instalment accounts receivable (note 8)	15,582	13,619
Inventory of crypts and merchandise (note 4)	3,061	2,549
Cemetery land		
- fully and partially developed	2,681	2,692
- held for future development	2,915	2,809
Pre-need funds and merchandise (note 5)	13,880	13,175
Fixed assets (note 6)	2,461	2,089
Other assets including investment in mining company (note 7)	230	87
	<u>\$41,509</u>	<u>\$37,920</u>
LIABILITIES		
Bank indebtedness (note 8)	\$ 445	\$ 1,671
Accounts payable and accrued liabilities	2,524	2,319
Care funds (note 9)	1,270	1,343
Provision for future delivery (note 10)	21,794	18,891
Deferred revenue	1,834	1,670
Long-term debt (note 11)	1,921	2,078
Deferred income taxes	4,621	3,635
	<u>34,409</u>	<u>31,607</u>
SHAREHOLDERS' EQUITY		
Share capital		
Authorized: 9,945,500 shares without par value		
Issued and fully paid: 2,109,397 shares	709	709
Retained earnings	6,391	5,604
	<u>7,100</u>	<u>6,313</u>
	<u>\$41,509</u>	<u>\$37,920</u>

On behalf of the Board



Director



Director

Notes to consolidated financial statements

FOR THE YEAR ENDED OCTOBER 31, 1980

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the company and all of its subsidiaries.

Valuation of assets

Instalment accounts receivable

Instalment accounts receivable which are collectible over periods averaging three years are recorded at cost less an allowance for doubtful accounts.

Inventory of crypts and merchandise

Inventory of crypts and merchandise is valued at the lower of cost and net realizable value.

Cemetery land

Cemetery land is recorded at cost which includes development costs less accumulated amounts written off to cost of sales.

Pre-need funds and allocated merchandise

Pre-need funds and allocated merchandise represent funds and merchandise set aside with trustees and suppliers to meet statutory or contractual obligations of pre-need and storage sales. These assets are recorded at cost, less a provision for losses in respect of individual investments where a decline in market value below the cost has occurred and appears to be permanent.

Fixed assets

Fixed assets are recorded at cost and are depreciated using the declining balance method at rates of 5% or 10% for buildings, 20% for equipment and furniture and 30% for automotive equipment. Leasehold improvements are amortized over the term of the applicable leases.

Provision for future delivery of merchandise and services

The provision for future delivery of merchandise and services under pre-need sales agreements is recorded in the accounts at the estimated future cost of such merchandise and services at the time of delivery, discounted at an appropriate interest rate. With respect to these contracts the average period from the balance sheet date to time of delivery is approximately eleven years. This provision is based upon a calculation made by a firm of consulting actuaries.

The provision for future delivery of merchandise under storage contracts is recorded at estimated cost at the date of the sales agreement. The merchandise is purchased on average three years from the date of the sales agreement and stored until delivery.

Recognition of revenue

Sales

Income from sales on an account or instalment receivable basis is recorded at the date of the sales agreement.

Deferred revenue

Service charges on the uncollected balance of instalment accounts receivable are collectible over the term of the sales agreement and are taken into revenue by using the sum-of-the-digits method.

Notes

2. DOMINANT BUSINESS OF THE COMPANY

The company is the owner of 37 cemeteries across Canada and provides a variety of products and services related to the cemetery industry on a pre-need and an at-need basis.

3. ACCOUNTS RECEIVABLE

Accounts receivable include an interest-bearing demand loan to a director. The amount of principal and interest outstanding as at October 31, 1980 is \$25,145 (1979 - \$60,000).

4. INVENTORY OF CRYPTS AND MERCHANDISE

	1980	1979
	(\$000)	
Crypts	\$ 2,552	\$ 2,135
Merchandise	509	414
	<u>\$ 3,061</u>	<u>\$ 2,549</u>

5. PRE-NEED FUNDS AND MERCHANDISE

	1980	1979
	(\$000)	
Cash and short-term deposits	\$ 747	\$ 1,341
Bonds (quoted market value \$6,296,701; 1979 - \$7,333,963)	6,991	8,217
Stocks (quoted market value \$1,952,997; 1979 - \$509,738)	1,843	637
Mutual funds (quoted market value \$997,214)	850	—
Mortgages	1,553	1,745
Merchandise in storage	1,896	1,319
Total funds and merchandise set aside at cost	<u>13,880</u>	<u>13,259</u>
Provision for losses on funds	—	84
Total pre-need funds and merchandise	<u>\$13,880</u>	<u>\$13,175</u>

Pre-need funds become available to the company when merchandise and services have been delivered.

6. FIXED ASSETS

	Cost	Accumulated Depreciation & Amortization	Net book value	
			1980	1979
	(\$000)			
Buildings	\$2,258	\$ 669	\$1,589	\$1,273
Equipment and furniture	1,794	1,153	641	576
Automotive equipment	1,122	929	193	187
Leasehold improvements	173	135	38	53
	<u>\$5,347</u>	<u>\$2,886</u>	<u>\$2,461</u>	<u>\$2,089</u>

Notes

7. OTHER ASSETS INCLUDING INVESTMENT IN MINING COMPANY

Included in other assets is an investment in 67,650 escrowed shares of Meston Lake Resources Inc. carried at a \$1 nominal value. The company received these shares during the year as consideration for the sale of its interest in a mining venture written off in 1975. The quoted market value of free shares in Meston Lake Resources Inc. at October 31, 1980 is \$9.25 per share.

8. BANK INDEBTEDNESS

Accounts receivable and instalment accounts receivable less amounts due to trust funds have been pledged as security for bank indebtedness.

9. CARE FUNDS

The amount of \$1,269,926 (1979 - \$1,342,774) represents the portion of instalment accounts receivable which will become payable into trust upon collection of the receivable.

As at October 31, 1980 amounts collected and set aside with trustees total \$13,602,352 (1979 - \$12,284,755). The company has the right to the income from these trust funds (1980 - \$1,362,007, 1979 - \$1,103,558) for the care and maintenance of cemetery properties but the assets of the funds are not assets of the company.

10. PROVISION FOR FUTURE DELIVERY

The provision for future delivery consists of the following:

	1980	1979
	(\$000)	
Merchandise and services sold on a pre-need basis	\$16,494	\$14,981
Merchandise sold on a storage basis:		
- to be purchased and stored in future	3,404	2,591
- purchased and stored until delivery	1,896	1,319
	<u>\$21,794</u>	<u>\$18,891</u>

11. LONG TERM DEBT

	1980	1979
	(\$000)	
10½% mortgage payable in quarterly instalments of \$1,000 to April 28, 1982 and the balance of \$277,313 on July 28, 1982	\$ 283	\$ 313
11¼% mortgage payable in monthly instalments (principal and interest) of \$1,960 from November 1, 1978 to October 1, 1983 and the balance of \$189,681 due on that date	197	198
11¼% mortgage payable in monthly instalments (principal and interest) of \$3,765 to August 18, 1983 and \$360,990 on July 31, 1984	378	381
10% mortgage payable in semi-annual instalments of \$43,618 from December 1, 1982 to June 1, 1987 and \$27,500 on December 1, 1987	464	464
Other long-term debt bearing interest at an average rate of 7% some of which is secured by various assets of the company	599	722
	<u>\$ 1,921</u>	<u>\$ 2,078</u>

Notes Amounts payable over the next five years are as follows:
 (\$000)

1981	\$100
1982	\$338
1983	\$243
1984	\$546
1985	\$115

Interest on long-term debt included in operating costs and other expenses amounted to \$185,291 (1979 - \$156,477).

12. OPERATING LEASE COMMITMENTS

The company is committed under operating leases for premises and equipment in the amount of \$750,000. The minimum annual rental payments over the next four years are as follows:

	(\$000)
1981	\$296
1982	\$254
1983	\$187
1984	\$ 13

13. DIVIDEND

On October 31, 1980 the directors declared an annual dividend of 10 cents per share to be paid on January 15, 1981 to shareholders of record on December 31, 1980.

14. SUBSEQUENT EVENT

On December 22, 1980 the company purchased a commercial building in Toronto for \$2,150,000. A portion of the building is to be occupied by the company. The purchase is to be financed by a first mortgage of \$1,650,000 at 13% due in 1999 and a demand bank loan at prime rate plus 1¼%.

DIRECTORS

D. G. C. Menzel, Q.C.*; *Partner of Campbell, Godfrey & Lewtas, Toronto*
John W. Sabine; *Partner of Campbell, Godfrey & Lewtas, Toronto*
Daniel J. Scanlan; *Chairman of Arbor Capital Resources Inc., Toronto*
Lord Shaughnessy*; *Managing Director of Canada Northwest Oils (Europe) B.V.,
and a Trustee of The Last Post Fund Inc., London, England.*
Jean Sirois; *Partner of Rivard, Hickson, Sirois & Lemieux, Québec City*
Philip L. Wilson*; *President and Chief Executive Officer of Arbor Capital Resources Inc.,
Toronto*

*Member, Audit Committee

**OFFICERS AND
SENIOR MANAGEMENT**

Daniel J. Scanlan, *Chairman*
Philip L. Wilson, *President*
Bernard E. Francisco, *Vice-President, Finance*
John W. Sabine, *Secretary*
Donald R. Belyea, *Director of Lands Management*
W. Keith Forbes, *Pricing Co-ordinator*
Joseph E. Johnson, *Director of Corporate Development*
Patrick Monkman, *Manager of Properties*
John V. Palmer, *Director of Marketing*

HEAD OFFICE

37 Front Street East, Toronto, Ontario M5E 1N6

AUDITORS

Coopers & Lybrand

**TRANSFER AGENT
AND REGISTRAR**

Crown Trust Company

ANNUAL MEETING

The annual and general meeting of shareholders will be held on Thursday,
February 12, 1981 in the Quebec Room, Royal York Hotel, 100 Front Street West,
Toronto, Ontario at 10:30 a.m. Toronto time.
